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North Korean Trade With Japan

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A Research Paper

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A Research Paper

This paper was prepared by [] the
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Summary

*Information available
as of 3 September 1985
was used in this report.*

Japan is North Korea's dominant trade partner among non-Communist developed countries, accounting for almost one-half of its exports and almost three-fourths of its imports in trade with the developed West. Even when North Korea's trade with China, the USSR, and Third World countries is taken into consideration, Japan stands out as an important player in North Korea's effort to modernize and develop its economy. At the same time, North Korea accounts for only a minuscule proportion—about 0.1 percent—of Japan's trade. Japan's trade with South Korea is 30 times larger than its trade with the North.

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For years Japan has been an important source of capital equipment for North Korea, as P'yongyang has sought to upgrade its industrial base. Imports from Japan fell off in 1984 and the first half of 1985, however, primarily, we believe, because P'yongyang was seeking to conserve hard currency. This is consistent with other analyses, which suggest that North Korea has been placing higher priority on dealing with its serious international debt problem—a necessary first step to gaining access to Western credits and technology that would improve long-term growth prospects for the ailing North Korean economy. This conclusion is further buttressed by trade data that show that, while total imports from Japan were falling in 1984, purchases of equipment for export industries—mining, in particular—were up sharply.

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A similar examination of exports to Japan, which increased over the same period, tells the flip side of that story. Foodstuffs have continued to be a major export, but, after plummeting nearly 30 percent in 1981-83, exports of nonferrous metals, steel, and coal rose sharply in 1984. Such materials are in short supply in North Korea, and the increase in sales in 1984 reflects, in our judgment, a broad-based effort to expand exports in pursuit of hard currency earnings.

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North Korea's economic performance over the past few years—we estimate real GNP growth has slowed from 7 percent per year in the 1970s to less than 3 percent annually in the 1980s—would be motivation enough for a decision by P'yongyang to shift economic gears. We suspect such a move was given greater urgency earlier this year when P'yongyang engaged Seoul in a wide range of talks that have already led to more contacts between North and South than at any time since the Korean war. Such contacts will underscore for the North the sharp disparity in economic

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development on the two sides of the Demilitarized Zone. If the North is to have anything to back up its claim to having the superior system, it must resolve some of the basic problems brought on in part by its autarkic policies of the past.

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We believe P'yongyang has taken a few of the right steps—it must convince Japan and the other nations of the developed West that it will pay its debts before the credits and joint ventures it is seeking to help modernize and develop the economy will be forthcoming. A close watch of North Korean trade patterns—especially with Japan—will help us determine whether P'yongyang is indeed committed to a policy of export growth and import restraint necessary for dealing with the debt problem and opening more to the West.

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North Korean Trade With Japan

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Trade in Perspective

Japan accounts for about 10 percent of North Korea's total exports and 20 percent of its imports (see figure 1). It is P'yongyang's dominant trade partner among non-Communist developed countries, taking almost one-half of its exports and supplying almost three-fourths of its imports in trade with the developed West.

North Korea accounts for only a minute portion of Japan's trade. Japan's trade with South Korea, for example, is 30 times larger than its trade with the North. Nonetheless, for a few commodities North Korea ranks as a key supplier, providing, for example, 20 percent of Japan's lead imports and 28 percent of its zinc purchases.

The Debt Factor

North Korea's default since the mid-1970s on its \$1.3 billion hard currency foreign debt has kept P'yongyang out of international capital markets. P'yongyang earns a surplus on its trade with the LDCs—primarily through arms exports to Iran—which helps to finance its trade deficit with Japan.

Figure 1
North Korea: Trade Shares, 1984

Percent

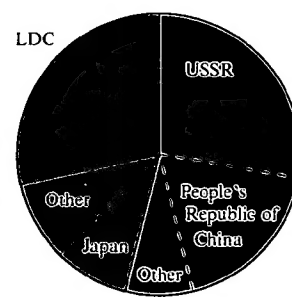
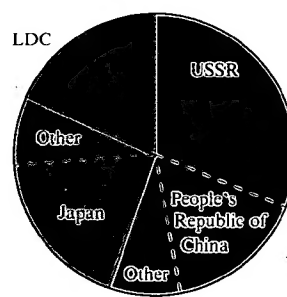
■ Developed
■ Communist

Imports

Exports

LDC

LDC



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its industrial base. Some imports, such as trucks and engines, are also important for North Korea's military efforts.

Last year, North Korean imports from Japan totaled \$254 million, down 22 percent from 1983 (see figure 2). Purchases declined an additional 14 percent in the first half of 1985. We believe the decline largely reflected an effort by P'yongyang to conserve hard currency. Purchases from other developed countries fell even more sharply.

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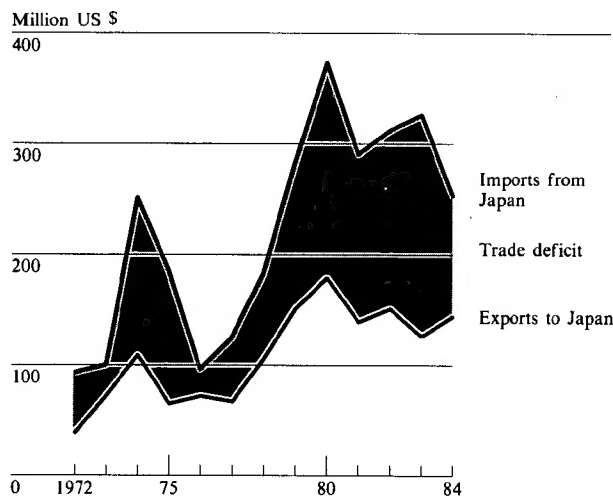
North Korean Imports

With Japanese equipment helping to improve efficiency in several priority industries—including mining, steel, textiles, agriculture, and transportation—Tokyo plays a key role in P'yongyang's plans for upgrading

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Figure 2
North Korea: Trade With Japan,
1972-84

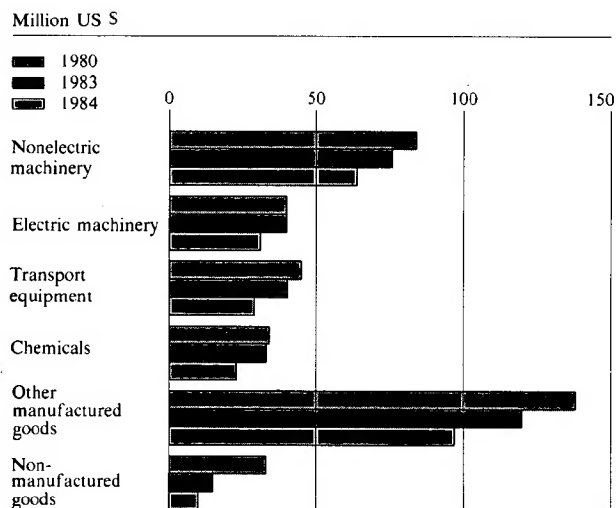


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North Korean imports from Japan are made up largely of manufactured goods, particularly capital equipment. Purchases consist of a variety of electrical and nonelectrical machinery, transport equipment, light manufactured goods, steel products, and chemicals (see table 1). The composition of imports has remained relatively constant in recent years: machinery and equipment account for one-half the total, other manufactured goods 30 percent, and chemicals 10 percent (see figure 3). A more complete breakdown, however, shows quite significant variability in shares over time. Mining and construction equipment, for example, has accounted for anywhere from less than 2 to 6 percent of total imports.

P'yongyang has become far more dependent on Japan as a source of Western machinery and equipment during the 1980s (see table 2). The West European share of North Korean machinery imports from the developed West—which reached a high of 80 percent in 1976—has remained below 25 percent throughout

Figure 3
North Korea: Major Commodity
Imports From Japan, 1980, 83, and 84



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the 1980s. Prior to 1984, P'yongyang gave priority to Japanese over West European creditors when making debt payments, and this contributed to the low levels of trade with Western Europe. Last year, P'yongyang stepped up its effort to improve ties to and expand trade with the West Europeans by covering overdue principal and interest payments to Sweden, Austria, Finland, and other creditors. Despite these efforts, North Korean imports of machinery from Western Europe fell last year.

Commodity Specifics

Although imports from Japan declined in 1984, P'yongyang increased its purchases of a few items quite sharply, including internal combustion engines, mining and construction equipment (mainly in the second half of the year), and medical and surgical equipment. Within the mining equipment category,

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Table 1
North Korea: Imports From Japan ^a

Million US \$

	1980	1981	1982	1983	1984
Total	374	291	313	327	254
Foodstuffs	1	1	1	1	1
Crude materials	15	6	10	6	2
Fuels	17	12	14	8	7
Of which:					
Coke	16	11	13	7	6
Chemicals	34	31	38	33	23
Manufactures	108	87	98	87	66
Of which:					
Steel	42	37	26	30	18
Other metals	17	18	14	21	14
Textiles	16	12	34	14	9
Paper	19	11	13	9	10
Rubber	9	6	7	9	11
Machinery and equipment	169	129	120	158	124
Of which:					
Nonelectric machinery	84	63	58	76	64
Metalworking machinery	15	10	6	13	5
Mining and construction	10	5	14	8	17
Heating and cooling	13	7	9	12	11
Pumps and centrifuges	6	7	7	16	8
Internal combustion engines	7	14	7	4	10
Cargo handling equipment	5	2	2	4	2
Electric machinery	40	32	24	40	31
Electric measuring control	8	5	4	8	5
Telecommunications equipment	16	14	8	7	6
Circuit devices	2	3	2	6	4
Transport equipment	45	31	38	42	29
Trucks	30	21	31	31	18
Other manufactures	21	19	20	24	23
Of which:					
Precision machinery	5	6	3	6	7
Other	9	6	12	10	8

^a Based on Japanese trade data.

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Table 2
North Korea: Imports of
Machinery and Equipment
by Major Supplier

Million US \$

	1975	1980	1981	1982	1983	1984
Japan	104	169	129	120	158	124
USSR	105	126	117	103	64	122
Western Europe	192	35	37	44	55	39

North Korea greatly increased its imports of self-propelled bulldozers and self-propelled mechanical shovels and excavators. [REDACTED]

In our judgment the surge in mining equipment purchases—which reached an alltime high—is evidence of P'yongyang's major effort to expand its export-oriented extractive industries, especially coal and nonferrous metals, which have been identified publicly as priority sectors for development. According to North Korean press reports, P'yongyang claims it will raise nonferrous metals output to 1.5 million tons by 1988, about five times current levels. Over the past two years North Korea has made inquiries and sent orders to Japan for a considerable amount of equipment to promote the nonferrous metals industry, including a residue processing system for zinc smelters and a waste gas desulphurizing system for lead smelters, with both presumably related to the current construction of zinc smelters at Munch'on and Tanch'on. [REDACTED]

P'yongyang increased its purchase in 1984 of several other items, including precision machinery, data-processing machinery, and radio transmission equipment. The pickup in purchases of these goods probably reflects an attempt to improve industrial quality and efficiency. We have no information on the particular industrial facilities in which these purchases have been used. P'yongyang has been trying to expand its electronics and machine-building industries, and some of these imports may have been incorporated in plants in these sectors. [REDACTED]

Many of North Korea's major imports from Japan declined in 1984. These included metalworking machinery, trucks, steel, chemicals, and textiles. Imports of metalworking machinery—primarily machine tools—fell particularly sharply and were at the lowest level since the late 1970s, possibly reflecting a decline in investment activity last year. [REDACTED]

One import item of particular note for military use is North Korean purchases of Japanese trucks. In recent years, P'yongyang has imported about \$30 million in trucks annually from Japan, but last year these purchases fell sharply to \$18 million. The commissioning of a new military truck factory—the 16 March Factory in P'yongsong—in late 1982 may be partially responsible for North Korea's decreased dependence on Japanese trucks. In addition, North Korea sharply increased its purchase of trucks from the Soviet Union last year. [REDACTED]

Despite the overall decline in imports of trucks from Japan, purchase of trucks with larger engines rose significantly. [REDACTED]

[REDACTED] Moreover, engine imports—some of which probably find their way into military vehicles—rose last year. [REDACTED]

North Korean Exports

North Korean sales to Japan amounted to \$144 million last year, 14 percent above 1983. Exports consist primarily of foodstuffs, metals, and crude materials. Fish, steel, zinc, lead, and vegetables—the top five commodities—together accounted for 70 percent of North Korean exports to Japan in 1984. Magnesite, silk, coal, and zinc ore accounted for another 17 percent of the total (see table 3). [REDACTED]

Japan took the bulk of P'yongyang's exports of fish and vegetables last year. Other major commodities sold to Japan, in contrast, are exported to a variety of markets. Steel exports, which consist largely of sheets and plates, for example, are delivered to Soviet,

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Table 3
North Korea: Exports to Japan ^a

Million US \$

	1980	1981	1982	1983	1984
Total ^b	179	139	151	126	144
Foodstuffs	35	38	50	52	49
Of which:					
Fish	26	26	36	35	32
Fruits and vegetables	7	10	12	14	14
Crude materials	46	38	45	30	28
Of which:					
Textile fibers (silk)	11	5	11	9	7
Metal ores and scrap	10	12	11	4	5
Magnesite	17	15	11	10	9
Fuels (coal)	10	8	3	2	4
Chemicals (fertilizer)	1	1	2	4	2
Manufactures	86	52	50	37	59
Of which:					
Iron and steel	24	19	16	15	22
Nonferrous metals	60	32	33	20	34
Lead	36	16	11	5	15
Zinc	24	16	21	15	18

^a Based on Japanese trade data.^b Because of rounding components may not add to the total shown.

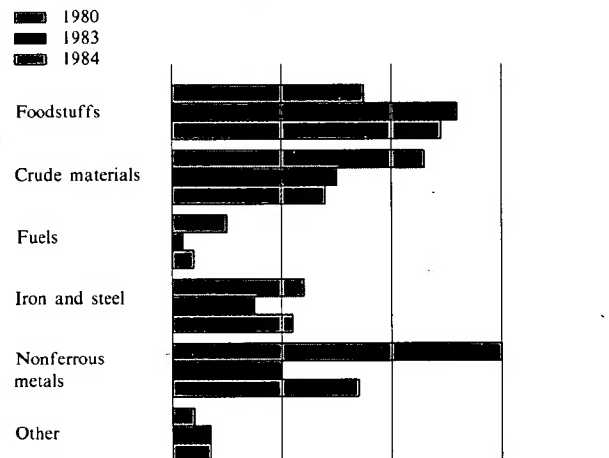
Chinese, East European, and LDC customers. Non-ferrous metals are sold in these same markets and in West Germany. Because of persistent supply constraints in North Korea, P'yongyang must make difficult choices in allocating these commodities between domestic and overseas markets. In the early 1980s, P'yongyang gave priority to domestic needs and Communist trade partners, but in 1984 allocated more to Japan, suggesting a higher priority on improving its standing with Western countries.

Commodity Specifics

The commodity mix sold to Japan has altered significantly in recent years, reflecting, we believe, changes in P'yongyang's economic priorities. Between 1980 and 1983 sales of nonferrous metals, steel, and coal

Figure 4
North Korea: Major Commodity Exports to Japan, 1980, 83, and 84

Million US \$



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plummeted (see figure 4). Prices fell somewhat but most of the decline stemmed from reduced volume. Shipments of coal, for example, fell from 100,000 tons in 1980 to 30,000 tons in 1983. Overall, the share of nonferrous metals, steel, and coal in the value of total exports to Japan declined from 53 percent in 1980 to 29 percent in 1983. We believe this decline represented a shift in North Korean priority to satisfying domestic needs and Communist country trade partners and to worsening supply problems.

Foodstuffs as a share of North Korean export earnings to Japan over the same period soared from 20 percent to 41 percent. This higher share reflected greater sales of both fish and vegetables. The growth in sales stemmed primarily from higher prices; quantity rose marginally.

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Reversing these trends in 1984, North Korea boosted exports of nonferrous metals, coal, and steel. P'yongyang increased lead exports from 4,000 to 15,000 tons; coal volume tripled from 30,000 to 93,000 tons. These sales, in our judgment, reflected a broad-based North Korean effort to expand exports in the pursuit of hard currency earnings.¹ (P'yongyang also raised its overseas shipments to West European and Communist countries last year.) Foodstuff and crude material exports to Japan in 1984 were at roughly the same level as in 1983 but declined as a share of total exports. [redacted]

In January of this year North Korea sold an unprecedented \$30 million in gold to Japan—an amount about three times higher than total exports in an average month. Over the past several years, P'yongyang annually has sold about \$130 million in gold to West Germany. The gold shipment to Japan—which pushed total exports to Japan up 18 percent in the first half of 1985—suggests that P'yongyang continued its effort to earn hard currency in the first half of this year. [redacted]

Looking Ahead

Japan–North Korea trade patterns of 1984 and the first half of 1985 tend to support the view—arising from media analysis and assessments of North Korean diplomatic behavior—that P'yongyang is considering new policies to lay the groundwork for a better economic showing in the plan period about to begin:

- Allocating products in short supply, such as coal and nonferrous metals, to export markets at the expense of domestic consumption signifies a willingness to accept slower growth in the short term for longer term benefits.
 - Holding down imports to conserve hard currency enabled P'yongyang to cover some of its overdue debt payments in 1984, probably reflecting an effort to improve its poor credit rating.
- [redacted]

- Shifting imports in favor of equipment needed for strengthening export-oriented sectors is a necessary condition for resolving the debt problem. [redacted]

If P'yongyang is, in fact, charting its economic course in this direction, we expect the North will continue to put priority on importing mining and construction equipment from Japan over the next year in order to develop extractive industries. P'yongyang is also likely to focus on electronics and precision equipment to upgrade quality. P'yongyang has attached high priority to acquiring Western equipment for developing its semiconductor industry with some assistance from the UN Development Program. North Korea has been unusually active this year in negotiating with Japanese firms for a variety of other types of machinery and equipment, although few deals have been made. North Korean inquiries have included construction-related machines, equipment for the steel industry, medical equipment, an optic fiber plant, and a coal liquefaction plant. P'yongyang is probably seeking steel equipment for expansion of the Songjin and Kimcha'aek steel complexes. Most of the equipment that North Korea is seeking would have its major uses in civilian rather than military sectors of the economy.

In our judgment the level of North Korea–Japan trade over the next few years will depend on:

- The debt issue. [redacted]
- [redacted]

Even if P'yongyang covers its overdue payments, Japanese firms will probably remain wary of North Korea. Hitaka-Shoji—a small pro-North-Korean firm that is among the leading firms involved in

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trade with North Korea—recently went bankrupt because of P'yongyang's failure to honor letters of credit, and this bankruptcy is likely to make other trading firms cautious in dealing with the North.

- Alternate suppliers. Attempting to diversify its sources of supply to reduce its heavy dependence on Japan, for both economic and political reasons, P'yongyang has been actively looking to West European countries for capital equipment, and these efforts could begin to pay off. Earlier this year North Korea signed a contract with a Danish firm for a prefab housing factory—the first major contract with Denmark since the mid-1970s.

[REDACTED]

[REDACTED] North Korea's recent failure to keep up with debt payments to its West European creditors, however, could slow this drive.

Improved political relations with Moscow, meanwhile, could lead to increased equipment purchases from the Soviets despite the efficiency advantages of Japanese-made equipment. Whereas North Korea's imports from Japan fell last year, its purchases from the Soviets rose 24 percent. Capital equipment purchases from the Soviets—notably trucks, mining equipment, and equipment for steel and textile production—nearly doubled last year, reaching \$122 million, almost equaling the \$126 million high recorded in 1980. This upward trend continued in the first quarter of 1985.

- North Korean export potential. The North's ability and willingness to sell nonferrous metals, coal, steel, and fish to Japan will have an impact on its capacity to finance imports from Japan. P'yongyang's exports will depend in large part on its progress in boosting production levels and its decisions on allocating supplies between foreign and domestic needs.
- Political environment. The political atmosphere between the two countries will also influence the level of trade. Following a cooling in relations last year in response to a Japanese prohibition on official travel imposed after the Rangoon bombing, there has been

a large increase in the number of North Korean delegations visiting Japan this year, and the rank of visiting North Korean officials has also risen. Japanese politicians generally see domestic political advantage in broadening nonofficial contacts with North Korea despite Tokyo's support for South Korea.

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[REDACTED] Progress in the North-South talks could further spur an improved political climate between Tokyo and P'yongyang.

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